[Slide 1]

TTRA 36th ANNUAL CONFERENCE
June 13-15, 2005

Tourism Marketing ROI
Ten Best Practices for Destinations

Presented by
Tiffany Urness, Senior Tourism Specialist
California Tourism

This spring, Governor Arnold Schwarzenegger invited California Tourism to submit a proposal for a budget *increase* to restore state funding eliminated two years previously during the severe fiscal crisis that California was confronting and still is. This was an amazing offer coming from a governor with a high profile commitment to slash programs and agencies to reduce the deficit.

There are many reasons no doubt for the Governor's interest in and support of tourism, but the fact that we have been consistently documenting the Return on Investment of major marketing activities for more than a decade surely helped the cause. That, and our willingness to sit down with his chief budget and financial officers and allow ourselves to be grilled on the nuts and bolts of our ROI methodology and rationale to their complete satisfaction.

So just what do analysts and auditors unfamiliar with tourism, tourism marketing and tourism ROI, and tourism research want to know?

What are our methods?
Where do they come from?
How do they compare to other states?

What they would be very pleased to have, and what would help all of us establish greater credibility and respectability would be a set of guidelines with tourism's "generally accepted accountability practices" against which to evaluate how our program performance and ROI measures stack up.

In 2003, the World Tourism Organization(WTO) came out with a 170-page report on "Evaluating National Tourism Organization Marketing Activities." Last year, the International Association of Convention & Visitor Bureaus (IACVB) published a handbook on "Recommended Standard CVB Performance Reporting" The February 2005 update is available free – on their website. These are excellent initiatives and now it's the states' turn. In fact, an informal group of state and provincial researchers are currently working on it--and would welcome additional participation.

Let's start by defining our terms. In essence, what we're talking about comes down to this:

[Slide 2]

**Tourism Marketing ROI =**

**TM GEN VIS $ : TM $**

Tourism marketing ROI is the ratio of

Tourism-Marketing-Generated Visitor Expenditures
To
Tourism Marketing Costs

When we announce that our tourism marketing generated a ROI of $4-to-1$, we are saying that for every $1.00, on average, invested in marketing, $4.00 was generated in visitor spending.

The key issues for destinations are:

What tourism marketing activities should we measure?

How do we identify the visitors and the impact generated as a result of our tourism marketing?

The following are my nominations for 10 "best practices" for measuring Return on Investment of destination marketing.

[Slide 3]

**Best Practice #1**

**ROI should focus on activities in which organization stakeholders have the greatest interest**

It is not necessary or desirable to determine the ROI for every activity.

Our boards and legislative analysts will be tend to be interested in the areas *we* have educated them to regard as important, year after year, in our newsletters, reports, and releases.

There is likely to be greatest interest in programs that cost the most – in other words, focus on big ticket items. At California Tourism, advertising and fulfillment frequently account for 60% of our budget. Demonstrating to analysts and auditors the return from these two programs satisfies them that there is no need to individually analyze the dozens of other smaller marketing activities that make up the rest of our program.

[Slide 4]

Best Practice #2

Use generally accepted accountability practices.

Establishing reliable estimates of visitor volume has always been difficult and costly for most destinations. The additional challenge of quantifying visitation attributable to marketing has often been thought to be unattainable. Yet over the years, and thanks to the work of many TTRA members, a large body of generally acknowledged, prudent, responsible methods for measuring the effectiveness of tourism marketing programs has emerged. I participated in a U.S. Department of Commerce Task Force on Accountability Research more than a decade ago. The methodologies described in the handbook that was produced are still the prevailing methodologies today.

Our credibility is strengthened not only when we use these methods, but also when we publicize the fact that we are using methods *generally accepted by the experts and practitioners in our field.*

For example, to persons outside our industry, the term “conversion study” may sound strange at first encounter. We can provide to them a citation from the World Tourism Organization marketing evaluation report that: “The conversion study is the most widespread methodology internationally for promotional evaluation […].”[1]

Probably the second most widespread method is the “recall study” such as is used in pre and post advertising awareness studies. Unlike in most conversion studies, there is no inquiry or direct contact by an inquirer who is “converted” to a visitor. This method relies on measuring the difference between travel by persons in markets exposed to and who can recall advertising, and travel by persons not exposed to and who do not recall advertising. These are also called “advertising effectiveness studies” but “recall” better describes what they measure.

Using the two first Best Practices as criteria for selecting what tourism marketing activities should be analyzed for ROI yields the following “Best Candidates”:

---

[1] Ibid, p. 91.

Advertising
Fulfillment
Consumer Co-op
Welcome Centers

These activities tend to be among the larger budget line items, and generally accepted ROI methods exist.

I would propose that the following tend to be poor candidates for ROI studies:

Media Relations (No generally accepted ROI methods; these programs are so intuitively valuable that modest budget line items are rarely challenged)

Travel Trade Development (No generally accepted ROI methods for determining whether travel agent or tour operator trade shows or promotions may be credited with increased visitation)

Destination Websites (Effectiveness is the usually the key issue, not ROI)

[Slide 5]

Best Practice #3

Seek the largest sample size

and the smallest margin of error you can afford.

I don't think this requires further elaboration but definitely belongs on the list.

[Slide 6]

Best Practice #4

ROI research shouldn't cost more than 5% of the activity to be measured.

Exceptions:
-Multi-year
-High Visibility
-Required

I used to say simply that the research shouldn't cost more than the researched activity, and that made the point. But auditors like specific numbers. Historically, California Tourism ROI research has been less than 5% of the total marketing budget.

If you are only going to conduct research once every few years, a larger than 5% research outlay in one year may of course be necessary.

Likewise, sometimes high visibility programs – like special events – are worth spending more on, either to confirm – or possibly to de-mystify – their value to your destination.

And sometimes more expensive research is unavoidable due to the terms of a grant or other finding source.

[Slide 8]

**Best Practice #5**

**ROI is activity-specific, time-sensitive, and past-oriented.**

Travel offices should not try to sum or average the ROI of all marketing activities.

ROI can only be calculated from the results of specific activities and campaigns over a given time frame – that needs to be defined – and resulting visitation, attributable to those activities over a defined time frame.

Our finance analysts now want us to tell them how much a future budget increase with return in tax revenues.  Predicting ROI would be very perilous – even if every aspect of an ad campaign stayed the same, the competitive marketplace cannot be predicted.  Nevertheless, and for this reason, among others, we turn to Best Practice #6.

[Slide 9]

**Best Practice #6**

**The higher the stakes (and the closer the anticipated scrutiny),**

**the more conservative the assumptions need to be.**

For example, you know that visitors influenced by your advertising may make multiple trips, but you limit your analysis to a given short time frame. You know that people in markets beyond those in which you surveyed have seen your ads, but you deliberately understate the total impact by only estimating visitation from your target markets. IACVB asserts that "the ultimate measure of marketing productivity is the number of individuals whose visit to the destination was clearly and significantly generated by the CVB's marketing efforts."[2] *Less* is easier to believe than *more*. It is better to understate and present your ROI as reflecting the modest portion of your marketing activity results that can be documented, rather than to strain credibility by presuming to take credit for all visitor dollars spent at your destination.

[Slide 9]

**Best Practice #7**

**If the interests of different stakeholders call for multiple ROIs, use terms that clearly differentiate them.**

California Tourism often needs ROI studies to provide us with several types of results. The World Tourism Organization distinguishes between two main approaches to ROI calculations:[3]

> **Simple causality approaches** – Where estimates of all visitor-related revenue over a given period of time are indexed against the total amount spend on promotions, and
>
> **Specified causality approaches** – Estimates of visitor spending that set out to differentiate between what would have been achieved without promotional investment and what was achieved with it.

The "simple causality approach" yields what is more commonly referred to as the "gross impact." What WTO calls "specified causality" yields what is more commonly referred to as "net impact."

The members of the California Travel and Tourism Commission want to see a statewide ROI – using the total spending of visitors determined to have seen our ads and who traveled to California. This is the Gross Impact ROI.

---

[2] Recommended Standard CVB Performance Reporting, IACVB, February 2005, p.25.
[3] Evaluating NTO Marketing Activities, WTO, pp.91-92

Our Business, Transportation and Housing Agency likes to see the Tax ROI – showing the state tax potion of the estimated visitor spending. This is the Gross Tax ROI

Our financial analysts and auditors like see the ROI of the incremental spending that would not have occurred otherwise, and the tax ROI of the incremental spending. These are the “Net ROI” and the “Net Tax ROI” respectively.

The specified causality (i.e., net) approach is the most conservative approach to ROI because it yields the ROI of incremental spending clearly and significantly shown to be generated by state marketing activities, but there are valid reasons and uses for each of the other ROI calculations.

[Slide 10]

Best Practice #8

Adopt generally accepted definitions whenever possible, such as TIA’s, D.K.

I still hear complaints that we haven’t managed to agree on what a “visitor” is – but I think most of us are in fact using TIA’s or DKSA’s definitions based on travel of 50 miles or more from home or involving an overnight stay.  CVBs may need, as the WTO study acknowledges, a definition appropriate to specific geographic geographic areas and boundaries, and that, too, falls within the range of “generally accepted.”

[

Best Practice #9

When presenting conversion study results, acknowledge their well-documented flaws and biases, and explain how your study addresses them.

This disarms the analysts and critics who would have pounced on most of the weaknesses anyway, while showing that they are not necessarily fatal. These are points with which every experienced travel and tourism researcher should be familiar. The work of many TTRA members is cited in the WTO report, which devotes six pages to the disadvantages and problems of conversion studies, such as the question of non-response bias, and summarizes the main remedies.

[Slide 12]

Best Practice #10

Acknowledge that ROI and increasing ROI

are not the only valid objectives of tourism marketing programs.

ROI is not the end-all. Other important marketing objectives that are evaluated in a variety of other ways would include:

Increasing brand awareness
Maintaining market share
Developing market niches and new markets

Even within those programs with an ROI focus, objectives may be nuanced to reflect different expectations. Core markets with already high levels of penetration and visitation are not likely to continue to show strong incremental gains year after year, but declining ROI would not necessarily be a reason to withdraw. For example, California could probably generate a greater ROI increase from putting new dollars into Arkansas than into Oregon, but we need to be in Oregon.

Also, let's not minimize the fact that most DMOs are responsible for pursuing a number of goals such as expanding tourism impacts to rural and lesser known destinations, and supporting cultural and heritage tourism development, that are only indirectly marketing-related, and where ROI is not a high priority.

In offering my personal checklist of Ten Best Practices that state travel offices should consider when evaluating the return on investment from tourism marketing activities, I hope I have accomplished three things:

- Drawn attention to the excellent resources now available from the International Association of Convention and Visitor Bureaus and the World Tourism Organization on evaluating and measuring performance of destination marketing organizations;
- Generated interest in the notion that working towards the establishment of a set of "generally accepted accountability practices" would be good for our industry;
- Helped to conjure a vision, and thereby stimulate discussion and ideas as to what some of those practices might be.

To recap –

## Ten Best ROI Practices

1. ROI should focus on activities in which organization stakeholders have the greatest interest
2. Use generally accepted accountability practices.
3. Seek the largest sample size and the smallest margin of error you can afford.
4. ROI research shouldn't cost more than 5% of the activity to be measured.

   (Exceptions: multi-year, high visibility, required)
5. ROI is activity-specific, time-sensitive, and past-oriented.
6. The higher the stakes (and the closer the anticipated scrutiny), the more conservative the assumptions need to be.
7. If the interests of different stakeholders call for multiple ROIs, use terms that clearly differentiate them.
8. Adopt generally accepted definitions whenever possible.
9. When presenting conversion study results, acknowledge their well-documented flaws and biases, and explain how your study addresses them.
10. Acknowledge that ROI and increasing ROI are not the only valid objectives of tourism marketing programs.